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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 001420

SIPDIS

STATE FOR SCA/CEN AND NEA/IR

E.O. 12958: DECL: 10/30/2018

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SUBJECT: TURKMENISTAN: HUNGARIAN AMBASSADOR TO TEHERAN ON
IRAN

Classified By: Charge d'Affaires Sylvia R. Curran. Reasons: 1.4(b) and
(d).

¶1. (C) Summary: The Hungarian ambassador to Iran and Turkmenistan, based in Teheran, spoke at length with the Charge earlier October 28, giving a read-out on Iran's worsening economic situation, the upcoming Iranian and U.S. presidential elections, views on the Israel-Palestinian conflict and Iran's goals in the nuclear standoff. He described Iran's economic situation as dire and attributed it primarily to government mismanagement, the embargo, and falling oil prices. He said that most Iranians have little interest in the Middle East and say the countries they most admire are America and Israel. End summary.

ECONOMY IN DIRE STRAITS

¶2. (C) Over lunch in Ashgabat on October 28, Hungary's ambassador to Teheran, Gyorgy Busztin, who is also accredited to Turkmenistan, shared with Charge his observations about the current state of affairs in Iran. He characterized the country's economic situation as "very bad", and attributed most of its financial woes to fiscal mismanagement and the absence of foreign investment brought on by economic sanctions. If the current economic situation continues, he said, the government will have no choice but to "scale down their rhetoric" and pull away from their nuclear program.

¶3. (C) Over the summer, he said, the ruling clerics initially approved ending a number of subsidies and the introduction of other reforms, but then backed down out of fear that the measures would lead to severe unrest. Iran's ruling elite do not want change, he said, because it is they who benefit from what he characterized as the current economic "anarchy." He said the Iranian government has overextended itself, spending 1 billion dollars/month to maintain its subsidy programs. It has further spent 80 billion dollars/year for the past two years providing military and other support to foreign (Lebanese, Palestinian, Iraqi and Afghan) political parties and militias. Iran's expenditures to pay its surrogates in Lebanon alone reportedly amount to 180 million dollars a month.

14. (C) Ambassador Busztin said that when the government recently attempted to impose a 3% value added tax on merchandise, the vehement opposition to the new measure was not just against paying the tax, but that the real problem was with having to document sales and give receipts for transactions, which would reveal to the government how much traders make. The VAT was subsequently suspended for 1 month, then 2 months, and most recently for one year. He said that the drop in the price of oil has had a devastating effect on Iran's economy, much more painful than economic sanctions. The country can break even with oil selling at \$70 a barrel, but that the longer the price is lower than that, the worse the economic situation becomes. When the world financial crisis happened, he said, mullahs at Friday prayer sermons called "God's revenge on the U.S." That was before the real effect on oil prices became apparent.

15. (C) Busztin said the country's oil industry is a mess. Infrastructure is obsolete and there is insufficient capital. Iran has no capacity to increase production. The regime is nervous, and knows that its own survival is tied to its ability to sustain the current system of subsidies. The majority of Iranians rely on food subsidies to get by from day to day, he said.

PRESIDENTIAL ELECTIONS

16. (C) Ambassador Busztin said that he had met recently with former president Khatami, but carefully avoided the subject of politics during their conversation, focusing instead on

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cultural issues. From his own sources in Teheran, he understands that Khatami, whom he sees as the only viable reformist candidate capable of challenging the conservatives, has not yet decided whether he will run for president. Khatami is unlikely to accept the nomination, he said, without guarantees that his reform agenda would not be blocked again. Busztin said the former president was embittered by his own failure to push through reforms and would like to see the constitution amended to give more power to the president and perhaps to give experts more of a say. Khatami wants more "leeway to act," he said, without having to conform to the rigid principles enshrined in the current constitution, which allows the Majlis excessive veto power over the president. For the reformists to prevail in the presidential election, he said, they have to encourage a big turn-out, otherwise the conservatives, who are highly effective at rallying voters, are likely to win. He noted that mullahs have a great deal of influence over many rural and poorer people and have an impact on their voting.

AHMADINEJAD VERSUS QALIBAF

17. (C) The ambassador sees Teheran Mayor Mohammad Baqr Qalibaf as an unlikely challenger to Ahmadinejad: He believes that the conservatives would be reluctant to nominate Qalibaf in lieu of Ahmadinejad, as it would only fragment and weaken their coalition. Despite his problems, Busztin said that Ahmadinejad and his populist message remain very popular in Iran, particularly among the 6 million "Basiji" paramilitaries, Iran-Iraq war veterans and other "middle aged" voters. It is the city-dwellers who are most upset with the government's financial and other mismanagement, whereas inhabitants of rural areas still support the regime. If the election were held today, he said, Ahmadinejad would still likely prevail.

TIES TO AFGHAN TAJIKS

18. (C) Busztin mentioned Iran's continued close ties to Afghan Tajiks, noting their strong support during the 1990s to the late Ahmed Shah Massoud and the anti-Taliban coalition. Former Afghan president Burhanuddin Rabbani is still reportedly receiving financial support from Iran and

was in Teheran three weeks ago, he said. The Iranians are very angry about the recent Saudi-sponsored negotiations between the government of Afghanistan and the Taliban. Recently, the Iranian MFA summoned all accredited ambassadors in Teheran and reminded them it is important to be "principled" and not to have any dealings with the Taliban.

MOST ADMIRER: AMERICA AND ISRAEL

¶9. (C) Busztin said that despite the Iranian government's constant anti-Israel rhetoric, the majority of Iranians are uncomfortable with official support for Hamas or the Palestinian movement, due to their "visceral" hatred for the Arabs, whom they blame for the downfall of Persia's ancient civilization. In general, the average Iranian has little or no interest in the Middle East. In fact, he said, the most popular country for Iranians is the United States, followed by Israel.

¶10. (C) On the subject of education, he said that Iran's universities offer "no free speech or thought," provide admission quotas for the children of the Basiji and Iraq war "martyrs", and as a result have student bodies that are for the most part "pro-regime". Iranians consider their schools and universities sub-standard and if given the opportunity, he said, most people would send their children abroad to study.

¶11. (C) Although the Iranian government continues to state that the U.S. elections will "make no difference" to Iran,

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most people, both officials and private citizens, are hoping for an Obama victory, which they believe would give the two sides an opportunity for a "tabula rasa" in U.S.-Iranian relations.

THE NUCLEAR ISSUE

¶12. (C) Busztin said that Iran's energy infrastructure is obsolete, and that the country lacks the capital and equipment needed to meet even its own energy needs over the longterm. Last winter, for example, during the record cold spell in the region, Iran could not even supply its own people with the energy needed to heat their homes. The Iranian government understands that it will run out of oil in the next 20 years and that it needs sources of alternative energy. Ideally, they would like to use nuclear energy for domestic needs and export oil. Busztin said it is his view that Iran's leaders believe actually possessing a weapon would be "more trouble than its worth," however, they prefer to be "on the threshold" of developing one in order to give themselves negotiating leverage. Conversely, the government continues to make public statements about its opposition to WMDs and their position that the Middle East should be a nuclear-free zone.

SUPREME LEADER VERY ILL

¶13. (C) The ambassador's sources tell him that Ali Khamenei is ill frail and ill, suffering from prostate cancer. In the event of his death, he would be replaced by a council, whose members "would be in the president's pocket."

THE AMERICANS ARE COMING?

¶14. (C) In a separate conversation with DATT over the weekend, Ambassador Busztin said that the rumors continue to swirl in Iran about U.S. plans to open an Interest Section in the country. The Iranian people, he said, would be delighted to see that happen, and the government knows of their enthusiasm but are concerned that "the line for U.S. visas would extend all the way from Teheran to Qom." The people are waiting anxiously for the "upcoming events" (presumably the U.S. elections) to see whether the interest section actually happens.

¶15. (C) COMMENT: Our interlocutor offers an interesting window on Iran. While he admitted that it is not easy to talk to Iranians and you have to be careful with whom you meet, he has cultivated a wide array of contacts and has traveled the country extensively. He promised to brief us during each visit to Ashgabat. END COMMENT.
CURRAN